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FOR IMMEDIATE RELEASE

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FORMER INDEPENDENCE SEAPORT MUSEUM PRESIDENT CHARGED WITH FRAUD AND TAX EVASION

PHILADELPHIA – Pat Meehan, United States Attorney for the Eastern District of Pennsylvania, today announced the filing of an information¹ charging John S. Carter, the former president of the Independence Seaport Museum in Philadelphia, with two counts of mail fraud and one count of tax evasion, stemming from his schemes to defraud the museum of more than \$1 million from 1997 to 2006.

Carter allegedly created phony invoices and charged a wide variety of personal items to the museum including, among many other purchases, the construction of a carriage home, expensive clothing, furniture for his home, artwork, audio, video and other electronics equipment, jewelry, a European vacation, and landscaping services. He also allegedly obtained title to a rare boat that had been donated to the museum and then arranged for the museum to pay for the vessel's refurbishment. He allegedly eventually sold the boat and kept the proceeds.

“As the information alleges, the defendant used the museum's funds as his personal piggy bank,” said Meehan. “He spent with reckless abandon, went to extraordinary lengths to conceal his fraudulent activities, and abused the trust placed in him by the museum.”

Count One - Fraudulent Purchases by Carter

Count One of the information alleges that Carter misused his position as the museum's president and engaged in a scheme to defraud the museum of more than \$1.5 million in the following ways:

1. Creating and submitting fraudulent invoices for cash reimbursements for work that was never performed and for work performed at Carter's personal residence in Osterville, Massachusetts but which was made to appear as if performed at the Seaport Museum-owned Spruce Street property in Philadelphia;

¹ The information represents an allegation, and the defendant is presumed innocent until proven guilty. All of the facts summarized in this press release are accusations only.

2. purchasing and charging to the Seaport Museum a wide variety of merchandise and other personal items that were intended for Carter rather than the museum and which Carter falsely claimed were legitimate museum business expenditures;
3. purchasing and charging to the Seaport Museum services and other items that were delivered and installed at Carter's Osterville residence and which Carter fraudulently stated were charges associated with the museum-owned Spruce Street property in Philadelphia;
4. purchasing and charging the Seaport Museum nearly \$100,000 for the construction of a wooden sailboat for Carter at a repair facility that was repairing other ISM vessels;
5. transferring the title to a one-of-a-kind vessel which had been donated to the ISM to a corporation that Carter established and controlled, arranging for the ISM to pay for the vessel's refurbishment at a cost of more than \$400,000, and then selling the vessel and retaining all of the proceeds for himself; and
6. purchasing with ISM funds for \$275,000 a modern luxury power boat which defendant used for his own pleasure at his Osterville residence, changed the name of the boat, transferred title to a company that he controlled, and caused the Seaport Museum to pay more than \$170,000 in storage and maintenance costs.

Specifically, according to the information, defendant Carter defrauded the Seaport Museum by using museum funds to purchase or pay for more than \$600,000 worth of personal and household items, which he disguised as legitimate museum business expenses, including, but not limited to the following examples:

- ▶ more than \$335,000 for the construction of a new carriage home adjacent to his home in Osterville, Massachusetts, extensive landscaping work, a new sprinkler system, a new storage shed, and a new roof for his home in Massachusetts;
- ▶ more than \$5,000 in gold jewelry;
- ▶ approximately \$50,000 for a rare 1860 American Paddle Box carved wooden eagle and a 19th century Narwhal tusk;
- ▶ more than \$50,000 worth of stereo and television equipment from Tweeter;
- ▶ more than \$30,000 worth of outdoor furniture from Country Casual;

- ▶ almost \$5,000 worth of gourmet food and kitchen appliances from Williams-Sonoma;
- ▶ approximately 140 cookbooks from Kitchen Arts and Letters for \$4,679 and an additional \$1,263 in other book purchases from the Rizzoli book store in New York;
- ▶ more than \$9,000 for industrial woodworking equipment from Wilke Machinery;
- ▶ more than \$25,000 in fine men's clothing from Zareh's in Boston, Paul Stuart in New York, and Boyd's in Philadelphia;
- ▶ more than \$8,000 for a vacation to France and England for Carter and his wife;
- ▶ more than \$17,000 for paintings, lithographs and other artwork from various galleries, including Trees Place, Maritime Gallery at Mystic Seaport, David Findlay Galleries, and Yankee Accent;
- ▶ approximately \$5,600 in tool sets, tool chests, shelving units and a wine rack;
- ▶ more than \$15,000 for a Tiger maple king sized bed, sapphire water goblets and other furniture from Leonards New England; and
- ▶ more than \$10,000 in garden supplies, including more than \$5,000 in tulips and other bulbs.

As explained below, in addition to the personal and household purchases described above, it is also alleged that defendant John Carter defrauded the Seaport Museum of more than \$900,000 in connection with three boats that Carter used for his personal enjoyment and pleasure at the expense of the museum: the *Albacore*, the *Kiah/Cyrene* and the *Sadie*.

Albacore - it is alleged that in 1997, the Seaport Museum conveyed title to the *Albacore*, an antique sailboat that had been donated to Seaport Museum in 1996, to Carter's own personal company, the Nantucket Sound Boat Works, Inc., for total consideration of one dollar. This transaction was allegedly never presented to or approved by Seaport Museum's board of directors at any time. Between 1998 and 2004, at Seaport Museum expense, it is alleged that the *Albacore* underwent extensive restoration and refurbishment work at the D.N. Hylan and Benjamin Marine boatyards in Maine, with total charges of approximately \$408,500 for this work. Between 1998 and 2004, Carter allegedly caused Seaport Museum to pay for all of these charges by submitting invoices that Carter had altered in order to make the bills appear to be related to work performed on other Seaport Museum vessels, including the *Enticer* and the *Nellie*. In July, 1998, D.N. Hylan and

Associates allegedly began to question Carter as to why the costs of restoring the *Albacore* were being paid by Seaport Museum rather than Carter, who was the owner of the vessel. In order to address these concerns and prevent his fraudulent scheme from being uncovered, it is alleged that Carter created a series of phony memos and fictitious correspondence reflecting an elaborate and complex explanation for the payments. According to the information, Carter eventually sold the *Albacore* for \$190,000, and retained all of the sales proceeds for himself.

Kiah/Cyrene - it is alleged that, in August, 2002, at the direction of Carter, the Seaport Museum purchased for \$275,000 (including a \$25,000 sales commission) a 1999 Shelter Island 38' luxury power boat named the *Kiah* from two individuals who lived in New York, New York. This transaction was allegedly never submitted to the Seaport Museum's board of directors for consideration and approval. The *Kiah*, a modern luxury power yacht built in 1999, was of allegedly no historical value to the Seaport Museum and, according to the information, was purchased by Carter for his personal use and benefit. At the time of the transaction, Carter allegedly intended to use the boat for his own personal recreational use while at his home in Osterville, Massachusetts, all the while claiming to the Seaport Museum's accountants and outside auditors that he had acquired the boat with the intention of holding it for resale at a higher price in the future. In January, 2003, Carter allegedly transferred title to the *Kiah* to Nantucket Sound Boatworks, Inc., a Delaware corporation that he owned and controlled, and did so without the knowledge or approval of the Seaport Museum. Then, in April, 2003, according to the information, Carter changed the name of the *Kiah* to the *Cyrene* and did not disclose to anyone at the Seaport Museum the fact that the name had been changed until he was questioned by the museum's controller nearly one year later. During the summers of 2003, 2004 and 2005, at a very substantial cost to the Seaport Museum, it is alleged that Carter used the newly-named *Cyrene* for his personal pleasure and enjoyment and reported to friends that the *Cyrene* was his boat. During those three summers, the *Cyrene* was allegedly docked at a small marina in Osterville, Massachusetts that was in close proximity to Carter's residence, and the Seaport Museum paid the summer dockage fees at Carter's behest. During the winters of 2002/2003, 2003/2004 and 2005/2006, the *Cyrene* was allegedly stored inside at Hinckley Yacht Services in Portsmouth, Rhode Island. According to the information, in addition to causing the Seaport Museum to incur substantial expenditures for inside storage at the Hinckley facility, the museum also paid for repair, maintenance and many other upgrades to the *Cyrene*, for total costs of approximately \$156,845.99.

Sadie - it is alleged that, in June, 2005, Carter requested that D.N. Hylan & Associates build for Carter a smaller wooden sailboat for his personal use. Hylan allegedly agreed and began construction of a sailboat called the *Sadie*. Between July 5, 2005 and March 14, 2006, Carter allegedly received monthly bills for work performed by Hylan in connection with construction of the *Sadie*, altered the bills to make them appear as if related to work performed by Hylan on other Seaport Museum-owned vessels, and then submitted the bills to the Seaport Museum for payment. When questioned by Hylan regarding why the museum was paying the bills associated with the construction of the *Sadie*, it is alleged that Carter falsely explained that, as president of the Seaport

Museum, he had arranged with the board of directors to fund a portion of Carter's personal expenses, rather than provide him with additional salary. As part of his scheme to fund the construction of the *Sadie* with the assets of the Seaport Museum, between July 5, 2005 and March 14, 2006, Carter allegedly submitted to the museum a series of fraudulent Hylan invoices totaling approximately \$99,380, of which a total of approximately \$71,093 were actually paid by the Seaport Museum.

Count Two - Fraud Scheme Involving Split Dollar Insurance Policy

Defendant Carter is also charged with engaging in a separate scheme to defraud the Seaport Museum in which Carter allegedly forged the signatures of two Seaport Museum board members in order to obtain control of a "split dollar" life insurance policy that was provided to Carter as part of his compensation arrangement. It is alleged that, beginning in 1997, the museum made annual premium payments of approximately \$100,000 per year and that the insurance policy issued to Carter provided a death benefit of \$2 million in addition to an accumulated cash value. It is alleged that, on January 9, 2007, the cash surrender value of this policy was approximately \$1,083,017.76. The terms and conditions of the policy, it is alleged, provided that the museum was entitled to receive a return of all of the premium payments that it had made to the insurer under the policy upon Carter's death or the cancellation of the policy. As part of the insurance contract, it is alleged that the Seaport Museum's interest in this life insurance policy could not be extinguished unless it executed a "release of assignment" form. The information charges that, on January 2, 2007, Carter forged the signatures of two members of the museum's board of directors onto the release of assignment form, and transmitted the form to Lincoln National Insurance Co. by U.S. mail. It is alleged that, on January 10, 2007, in reliance on the fraudulent release of assignment form that Carter had submitted, Lincoln National Life Insurance Co. processed the request and released the assignment, thereby divesting the Seaport Museum of its right to the return of all of its premium payments, and providing Carter with exclusive ownership of the policy.

Count Three - Income Tax Evasion

In Count Three, defendant John Carter is charged with tax evasion for his willful failure to report on his tax returns the more than \$1.5 million in fraud proceeds that he received as a result of the scheme to defraud the Seaport Museum described in Count One. It is alleged that, during the years 1997 through 2005, Carter and his wife filed joint federal income tax returns that failed to report as income the fraudulent proceeds of his scheme, and, further, that Carter provided false information to his tax return preparer by not disclosing his receipt of the fraud proceeds, thereby resulting the filing of tax returns that under-reported Carter's income and tax liability.

INFORMATION REGARDING THE DEFENDANT

NAME	ADDRESS	AGE OR DATE OF BIRTH
John S. Carter	Osterville, Massachusetts	May 11, 1950

This case was investigated by the Federal Bureau of Investigation and the Internal Revenue Service, Criminal Investigation Division. It has been assigned for prosecution to Assistant United States Attorney John J. Pease and Special Assistant United States Attorney Lisa Caulfield.

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